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RUEHLO/AMEMBASSY LONDON 1695
RUEHMD/AMEMBASSY MADRID 8612
RUEHNM/AMEMBASSY NIAMEY 1273
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RUEHFR/AMEMBASSY PARIS 2294
RUEHRB/AMEMBASSY RABAT 1885
RUEHRO/AMEMBASSY ROME 0419
RUEHTU/AMEMBASSY TUNIS 6723
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C O N F I D E N T I A L ALGIERS 001096

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [PREL](#) [AG](#)
SUBJECT: SONATRACH GOES GLOBAL

REF: A. ALGIERS 00710

[1](#)B. LAMELA-WOOD E-MAILS 7/31/07
[1](#)C. PARIS 3237

Classified by: DCM Thomas F. Daughton; Reasons 1.4 (b)
and (d).

[1](#)1. (SBU) SUMMARY: As speculation mounts regarding the date of the next international licensing round for Algerian exploration blocks, Sonatrach has signaled that either downstream market access or partnership in foreign projects will be a precondition for foreign firms wishing to partake in Algerian investment projects. This deal-making reflects Algeria's broader intent to fashion Sonatrach into an internationally recognized energy company even as the parastatal expands into a broad array of nontraditional, non-energy business ventures. END SUMMARY.

EXPANDING INTERNATIONAL PRESENCE

[1](#)2. (SBU) In a series of recent energy deals, state-run oil and gas parastatal Sonatrach has demanded that potential foreign partners help the company expand its international holdings as a precondition for investment in Algeria. Minister of Energy and Mines Chakib Khelil announced July 27 that partnership talks between Sonatrach and Gaz de France had fallen apart for the time being because "French companies did not make proposals to Sonatrach that would contribute to its international development -- something that is a strategic goal for us, as did Statoil and the Italian group ENI." (Note: Norway's Statoil recently began an offshore exploration project with Sonatrach in Egypt. ENI recently started working with Sonatrach on an exploration project in Mali. End Note.) The leading energy journalist for the Algerian daily El Watan told us July 31 that Energias de Portugal had similarly struck a deal to build electric plants in Algeria in exchange for downstream gas and electricity supplies to Portugal from Sonatrach.

[1](#)3. (SBU) Algeria signaled in June that Spain would have to allow Sonatrach greater access to downstream sales in Spain as a condition for Spanish participation in future upstream development in Algeria (ref A). Khelil held his ground while publicly hinting that the billion-dollar Medgaz pipeline project between Algeria and Spain was in jeopardy. On July 19, following Khelil's visit to Madrid, the Spanish

ministry of industry overruled a previous decision by the national energy commission and lifted restrictions on the amount of gas Sonatrach could sell to Spain, although details of the deal remain murky (ref B).

14. (SBU) Since Khelil took the helm of Sonatrach and particularly since the start of President Bouteflika's second mandate, Sonatrach has developed exploration projects abroad -- but none with the sort of quid pro quo apparent in recent deals. Sonatrach won exploration block 65 in Libya's 2005 licensing round in which it pledged to invest USD 13 million over five years. Also in 2005, it signed a USD 29.5 million, 12-year exploration contract with Niger. Enafor, a Sonatrach subsidiary, received in 2004 a 5-year USD 50 million exploration contract in Oman's Sahel Rawel field. Sonatrach acquired a 10 percent share in the Camisea gas development project in Peru in 2003, adding to its existing 21 percent share in the pipeline portion of the project. (Note: Embassy contacts in the energy sector told us that Sonatrach's involvement with Camisea dates to Minister Khelil's tenure at the World Bank, when he was responsible for projects in Peru. End Note.) Sonatrach CEO Mohammed Meziane announced in 2006 that Africa was a priority area of investment for Sonatrach and that Algeria was evaluating new development projects in Libya, Tunisia, Egypt, Niger, and Mali. Meziane added that Sonatrach was also examining exploration projects in Yemen.

15. (SBU) In addition to exploration projects, Sonatrach has increasingly diversified into global downstream and transportation projects. Khelil reaffirmed July 29 that Algeria was planning to move forward with the Trans-Sahara Gas Pipeline. The project would fall under the auspices of the New Partnership for African Development (NEPAD) and link Nigeria's Warri gas field to Algeria's Beni-saf field en route to Algeria's existing sub-Mediterranean pipeline networks. In March 2006, Sonatrach announced an oil stockpiling project with South Korea to strengthen its position in Asian markets. British Petroleum and Sonatrach embarked on a joint venture in an LNG terminal on the UK's Isle of Grain. This follows Sonatrach's purchase of 10 percent of the Reganosa LNG terminal in Mugardos, Spain. Sonatrach established in 2005 a joint venture with Germany's BASF in a Spanish petrochemical plant. Press reports indicate Algeria has eyed a share of Tunisia's oil distributor, SNDP-AGIL, as well as LNG terminals in Indonesia.

NON-TRADITIONAL ENTERPRISES

16. (SBU) Sonatrach is progressively venturing into a wide range businesses that are often only marginally affiliated with the energy sector. Sonatrach bought out its former partner Air Algerie in May to take control of Tassili Airlines, which currently consists of four airplanes and is slated to acquire 41 additional aircraft in the next few years at the cost of an estimated USD 1 billion. As a first tranche, Tassili plans to take possession of four 70-passenger jets from Canada's Bombardier by October. The airline will fly some oil-sector routes to remote parts of southern Algeria but will also compete with the national carrier Air Algerie on domestic and international routes. In another new venture, Sonatrach announced in June its intention to launch a fiber-optic telecommunications company. This follows reports of the company's interest in starting an Algerian business television station.

17. (SBU) While airlines and television stations are a marked shift, Sonatrach has long stepped outside the traditional bounds of an energy company. During the decades of Algeria's socialist experiment and the ensuing "black decade" of terrorism, Sonatrach was the only government agency capable of executing big-ticket investment projects. A project finance director for the Overseas Private Investment Corporation (OPIC) told us that her early discussions to finance the Hamma desalination plant in Algiers Bay quickly drew her to the conclusion that Sonatrach was the only Algerian government agency with the technical ability, familiarity with international financing, and relative transparency to execute a multi-million dollar project. (Note: OPIC and Citigroup ultimately contributed the bulk of financing to the General Electric-built Hamma project, now nearing completion. OPIC's primary Algerian government interlocutor in the later stages of the project has been the Algerian Energy Commission, a joint venture between Sonatrach and state-run utility provider Sonelgaz that promotes energy-sector private investment in Algeria. End Note.)

COMMENT: CHASING THE PETRONAS DREAM

18. (C) A former Sonatrach CEO recently told us that the company's efforts to mold itself into a global energy conglomerate comes under clear directive from President Bouteflika. In doing so, the president appears intent on gaining points domestically while bolstering Algeria's role on the world stage. Sonatrach has long served as Algeria's "state within a state." It is the only government agency Algerians put much confidence in and that youth actively seek to work for. As such, Sonatrach may be the government's best bet to show an increasingly dissatisfied Algerian population that the GoA can deliver concrete improvements spanning from clean water and transportation to telecommunications. Sonatrach's new overseas ventures, most of which are in Africa, meanwhile give Bouteflika credibility as the driving power of NEPAD, one of the president's pet projects in his efforts to play a leading role in African development.

19. (C) Such expansion does not come without its risks or limitations. Sonatrach's snubbing of Gaz de France may provide Algerians with some short-term solace, particularly in the wake of Sarkozy's recent efforts to move past any French "repentance" for colonial-era sins (ref C), but future Sonatrach efforts to "carry a big stick" with its European energy buyers will ultimately be constrained by the symbiotic nature of pipeline-born gas trading. At the same time, as one oil and gas attorney who advises numerous global energy firms with operations in Algeria told us, Sonatrach becomes increasingly susceptible to fly-by-night investments as it strays too far from its core businesses. With little experience in offshore exploration, for example, Sonatrach may soon find itself well beyond its depth in foreign-based projects. Moreover, without shareholders demanding some accountability for such risks, as is the case with Malaysia's Petronas or Norway's Statoil, Sonatrach may also be setting itself up for another Brown Root Condor

affair, in which employees of a Sonatrach subsidiary looted millions from domestic infrastructure projects.

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